

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Trenton, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Trenton, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Trenton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton, Michigan (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Trenton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule of the General Fund, and the pension system schedule of funding progress and employer contributions identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of City Council
City of Trenton, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Trenton, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 13, 2006

City of Trenton, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Trenton, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- The City fell short of collecting its \$19,575,754 budgeted revenues by \$171,715 in the General Fund. The budgeted revenue included a use of fund balance of \$735,039. If the budgeted revenue is adjusted for this value, the City exceeded budgeted revenues by \$563,324.
- Total net assets related to the City's governmental activities decreased by \$886,521. Total net assets, governmental and business-type combined, increased by \$1,427,998.
- The City continued its long-term investment in enhancements of the downtown area.
- Residential building activity continued this year, adding more condominium projects at Pinehurst and Rolling Ridge. Trenton Forging requested and received an Industrial Facilities Tax Abatement, expanding facility operations and ensuring job retention.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view. They tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2006 and 2005 (in thousands of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 17,221	\$ 16,586	\$ 4,065	\$ 3,599	\$ 21,286	\$ 20,185
Noncurrent assets	17,180	18,410	71,480	72,710	88,660	91,120
Total assets	34,401	34,996	75,545	76,309	109,946	111,305
Liabilities						
Current liabilities	4,810	4,137	3,771	3,789	8,581	7,926
Long-term liabilities	3,862	4,243	48,288	51,349	52,150	55,592
Total liabilities	8,672	8,380	52,059	55,138	60,731	63,518
Net Assets						
Invested in capital assets - Net of related debt	14,184	14,325	21,002	17,588	35,186	31,913
Restricted	1,051	1,656	-	1,282	1,051	2,938
Unrestricted	10,494	10,635	2,484	2,301	12,978	12,936
Total net assets	<u>\$ 25,729</u>	<u>\$ 26,616</u>	<u>\$ 23,486</u>	<u>\$ 21,171</u>	<u>\$ 49,215</u>	<u>\$ 47,787</u>

The City's combined net assets increased a modest 3.0 percent from a year ago, increasing from \$47,787,000 to \$49,215,000. Governmental activities decreased 3.3 percent while business type activities increased 10.9 percent (\$887,000 in decrease governmental activities versus an increase of approximately \$2,315,000 in business activities).

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - decreased by \$141,000 for governmental activities. This represents a decrease of 1.3 percent. This is mostly attributed to the write-off of a long-term loan to the Kennedy Recreation Fund and a transfer of capital assets to the Water and Wastewater Treatment Fund.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2006 and 2005 (in thousands of dollars):

TABLE 2

	Governmental		Business-type Activities		Total	
	Activities					
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 2,407	\$ 2,394	\$ 6,834	\$ 6,514	\$ 9,241	\$ 8,908
Operating grants and contributions	1,132	1,312	-	-	1,132	1,312
Capital grants and contributions	76	1,416	932	564	1,008	1,980
General revenue:						
Property taxes	15,050	14,503	2,426	2,501	17,476	17,004
State-shared revenue	2,250	2,275	-	-	2,250	2,275
Unrestricted investment earnings	781	463	130	53	911	516
Transfers and other revenue (expense)	(1,044)	(465)	1,105	249	61	(216)
Total revenue	20,652	21,898	11,427	9,881	32,079	31,779
Program Expenses						
General government	3,154	4,708	-	-	3,154	4,708
Public safety	9,852	10,178	-	-	9,852	10,178
Public works	6,380	5,192	-	-	6,380	5,192
Community and economic development	421	654	-	-	421	654
Recreation and culture	1,339	556	-	-	1,339	556
Special projects	267	650	-	-	267	650
Interest on long-term debt	126	141	-	-	126	141
Enterprise	-	-	9,112	8,350	9,112	8,350
Total program expenses	21,539	22,079	9,112	8,350	30,651	30,429
Change in Net Assets	\$ (887)	\$ (181)	\$ 2,315	\$ 1,531	\$ 1,428	\$ 1,350

Governmental Activities

The City's total governmental revenues decreased \$1,246,000 from the previous year. The decrease was due to capital grants received in the previous fiscal year for downtown enhancements, which were a nonrecurring source of income. The increase in tax revenue was due to a one-time recovery of previous years' property tax defaults by a major taxpayer. Investment earnings increased because of a rise in the rate of return on investments. Rising costs in health care and utilities attributed to the increase in operational expenses.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and Kennedy Recreation Center. Water provided to residential, commercial, and industrial users is purchased from the Detroit Water System. Sewage treatment is provided through a City-owned and operated sewage treatment plant. The combined water and sewer rate was increased \$.22 or 4 percent for the fiscal year 2005-2006, which attributed to the increase in water sales, rather than consumption. As had been anticipated, the usage of the sewage system by a major industrial user was down by 18 percent, resulting in a \$125,000 decrease in revenues from the previous year. Water loss was held below 14 percent, which is considered normal in an aging system. The City is averaging the replacement of one water main a year through the rate structure. The increase in costs is due to increases in depreciation expense because of the \$50,000,000 in upgrades to sewer infrastructure, \$507,000 for a new operation and maintenance department mandated by the State to monitor the City's sewer system, and an approximately \$230,000 increase in the cost of water.

The City's Funds

Analysis of the City's major governmental fund, the General Fund, begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The City's major funds for 2005-2006 include the General Fund, Kennedy Recreation Center Fund, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant are public safety, which incurred total expenses of \$8,564,035 or 46.4 percent of General Fund expenditures in fiscal year 2005-2006. Public works would be next at \$3,496,775 or 18.9 percent of General Fund expenditures. These services are almost entirely supported by property taxes.

General Fund Budgetary Highlights

- The City exceeded budgeted revenues, before the use of fund balance, by \$563,324. This is attributable to a recovery of unpaid property taxes of approximately \$318,000 and \$168,000 in interest for 2001 and 2002 taxes, respectively, by a major taxpayer. This was an extraordinary revenue and will not occur again. Also, due to favorable interest rates, General Fund investment earnings exceeded budgeted amounts by \$282,060. However, tax revenues were diminished by approximately \$75,000 due to several unfavorable tax tribunal judgments. A slowing in development in the city resulted in building and related permits to fall short of budgeted revenues by \$111,432.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2005-2006 fiscal year, the City had \$86.5 million invested in a broad range of capital assets, including buildings, police and fire equipment, water and sewer lines, roads, and the Kennedy Recreation Center. Phase II renovation of the downtown streetscape has begun, including additional parking and lighting. There were no new financing or debt obligations undertaken in the current year except for the refinancing discussed below. There are no projected debt issues for the next fiscal year.

Due to favorable interest rates, the City refinanced a portion of the outstanding balance of the original \$8,000,000 bond issue for the expansion and renovation of the Kennedy Recreation Center. The City realized a net present value savings of \$290,000.

Economic Factors and Next Year's Budgets and Rates

The City was able once again to maintain the millage at 21 mills for 2005-2006. This was accomplished through departmental restructuring, personnel attrition, and budgeted use of fund balance. As stated in last year's discussion, because of the limitations of Proposal A, the City will need to continue to monitor the budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result is the total taxable value for the City growing less than inflation, before considering new property additions. With a significant amount of the City revenues derived from property taxes, we will continue to monitor this closely.

With the completion of the sewer system rehabilitation, attention will not only need to be focused on the operation and maintenance of the system's assets but on how to fund other water and sewer projects which do not qualify for the use of state revolving funds. The operation and maintenance plan for the City's sewers was a new budgeted expenditure of approximately \$725,000 in the current year.

The City continues to encourage new development and to search for alternative sources of new revenue as well as cost reductions to balance future budgets. The local health care facility is expanding and expects to invest \$30,000,000 in their facilities, encouraging job growth in the city. A local manufacturer was granted an industrial facility tax exemption, ensuring the retention of jobs. Health care continues to be a major budgetary concern, with attempts to address future costs in labor negotiations.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the controller's office.

City of Trenton, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 14,872,011	\$ 1,914,123	\$ 16,786,134	\$ 495,385
Receivables:				
Taxes	534,274	212,226	746,500	-
Customers	-	1,567,799	1,567,799	-
Other	351,712	24,321	376,033	-
Due from other governmental units	1,321,960	115,064	1,437,024	-
Inventories	141,300	232,135	373,435	-
Long-term advance and other assets	103,357	-	103,357	-
Restricted assets (Note 4)	-	2,067,763	2,067,763	-
Capital assets - Net (Note 5)	<u>17,076,550</u>	<u>69,411,822</u>	<u>86,488,372</u>	<u>2,687,943</u>
 Total assets	 34,401,164	 75,545,253	 109,946,417	 3,183,328
Liabilities				
Accounts payable	748,511	461,379	1,209,890	267,927
Accrued and other liabilities	915,903	498,621	1,414,524	74,044
Due to other governmental units	-	-	-	-
Deferred revenue	1,284,476		1,284,476	
Current liabilities payable from restricted assets (Note 4)	-	443,564	443,564	-
Noncurrent liabilities (Note 7):				
Due within one year	1,861,054	2,367,550	4,228,604	70,000
Due in more than one year	<u>3,862,065</u>	<u>48,288,065</u>	<u>52,150,130</u>	<u>2,220,000</u>
 Total liabilities	 <u>8,672,009</u>	 <u>52,059,179</u>	 <u>60,731,188</u>	 <u>2,631,971</u>
Net Assets				
Invested in capital assets - Net of related debt	14,184,064	21,001,510	35,185,574	462,943
Restricted:				
Major and local streets	588,972	-	588,972	-
Community development block grant	64,633	-	64,633	-
Grant	134,881	-	134,881	-
Library	262,068	-	262,068	-
Unrestricted	<u>10,494,537</u>	<u>2,484,564</u>	<u>12,979,101</u>	<u>88,414</u>
 Total net assets	 \$ 25,729,155	 \$ 23,486,074	 \$ 49,215,229	 \$ 551,357

City of Trenton, Michigan

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 3,153,655	\$ 443,229	\$ -	\$ -
Public safety	9,852,499	1,026,444	2,128	33,518
Public works	6,379,549	147,682	1,016,871	-
Community and economic development	421,274	-	113,000	-
Recreation and culture	1,338,912	531,260	-	42,597
Special projects	266,997	258,760	-	-
Interest on long-term debt	125,667	-	-	-
Total governmental activities	21,538,553	2,407,375	1,131,999	76,115
Business-type activities:				
Water and sewer	6,928,332	5,209,070	-	901,707
Recreation	2,184,322	1,625,050	-	30,109
Total business-type activities	9,112,654	6,834,120	-	931,816
Total primary government	<u>\$ 30,651,207</u>	<u>\$ 9,241,495</u>	<u>\$ 1,131,999</u>	<u>\$ 1,007,931</u>
Component units:				
Downtown Development Authority	\$ 416,811	\$ -	\$ -	\$ -
Brownfield Redevelopment Authority	9,024	-	-	-
Total component units	<u>\$ 425,835</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Gain on disposal of capital assets				
Miscellaneous income				
Transfers - Net (Note 6)				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (2,710,426)	\$ -	\$ (2,710,426)	\$ -
(8,790,409)	-	(8,790,409)	-
(5,214,996)	-	(5,214,996)	-
(308,274)	-	(308,274)	-
(765,055)	-	(765,055)	-
(8,237)	-	(8,237)	-
(125,667)	-	(125,667)	-
(17,923,064)	-	(17,923,064)	-
-	(817,555)	(817,555)	-
-	(529,163)	(529,163)	-
-	(1,346,718)	(1,346,718)	-
(17,923,064)	(1,346,718)	(19,269,782)	-
-	-	-	(416,811)
-	-	-	(9,024)
-	-	-	(425,835)
15,049,600	2,426,250	17,475,850	721,816
2,249,831	-	2,249,831	-
780,983	129,987	910,970	36,832
31,450	-	31,450	-
29,679	-	29,679	1,022
(1,105,000)	1,105,000	-	-
17,036,543	3,661,237	20,697,780	759,670
(886,521)	2,314,519	1,427,998	333,835
26,615,676	21,171,555	47,787,231	217,522
\$ 25,729,155	\$ 23,486,074	\$ 49,215,229	\$ 551,357

City of Trenton, Michigan

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 8,141,813	\$ 4,980,636	\$ 13,122,449
Receivables:			
Taxes	530,447	3,827	534,274
Other	157,746	193,966	351,712
Due from other governmental units	308,732	1,013,228	1,321,960
Inventories	56,836	-	56,836
Long-term advance	65,000	-	65,000
Total assets	<u>\$ 9,260,574</u>	<u>\$ 6,191,657</u>	<u>\$ 15,452,231</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 505,229	\$ 195,366	\$ 700,595
Accrued and other liabilities	341,875	36,462	378,337
Deferred revenue	-	1,284,476	1,284,476
Total liabilities	847,104	1,516,304	2,363,408
Fund Balances			
Reserved for:			
Long-term advance	65,000	-	65,000
Inventories	56,835	-	56,835
Unreserved:			
General Fund (Note 1)	8,291,635	-	8,291,635
Special Revenue Funds	-	2,911,107	2,911,107
Capital Projects Fund	-	1,764,246	1,764,246
Total fund balances	8,413,470	4,675,353	13,088,823
Total liabilities and fund balances	<u>\$ 9,260,574</u>	<u>\$ 6,191,657</u>	<u>\$ 15,452,231</u>
Fund Balance - Total Governmental Funds			\$ 13,088,823
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			15,078,459
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(3,292,486)
Compensated absences and uninsured claims are included as a liability in governmental activities			(2,385,011)
Internal Service Funds are included as part of governmental activities			3,239,370
Net Assets of Governmental Activities			<u>\$ 25,729,155</u>

City of Trenton, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 14,340,380	\$ 709,220	\$ 15,049,600
Licenses and permits	359,868	-	359,868
Federal grants	-	286,592	286,592
State sources	2,249,831	1,059,468	3,309,299
Charges for services	841,041	-	841,041
Fines and forfeitures	408,129	-	408,129
Interest income	626,060	166,648	792,708
Other	528,730	656,374	1,185,104
Total revenue	19,354,039	2,878,302	22,232,341
Expenditures			
Current:			
General government	3,121,461	-	3,121,461
Public safety	8,564,035	-	8,564,035
Public works	3,496,775	1,744,972	5,241,747
Recreation and culture	641,500	380,490	1,021,990
Other	2,584,797	788,370	3,373,167
Debt service	27,214	442,005	469,219
Total expenditures	18,435,782	3,355,837	21,791,619
Excess of Revenue Over (Under) Expenditures	918,257	(477,535)	440,722
Other Financing Sources (Uses)			
Transfers in	50,000	872,039	922,039
Transfers out	(1,405,000)	(622,039)	(2,027,039)
Total other financing sources (uses)	(1,355,000)	250,000	(1,105,000)
Net Change in Fund Balances	(436,743)	(227,535)	(664,278)
Fund Balances - Beginning of year	8,850,213	4,902,888	13,753,101
Fund Balances - End of year	<u>\$ 8,413,470</u>	<u>\$ 4,675,353</u>	<u>\$ 13,088,823</u>

City of Trenton, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (664,278)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs along with donated capital assets are allocated over their estimated useful lives as depreciation:

Capital outlay	940,241
Depreciation	(923,410)

Income reported in statement of activities for gain on disposition of assets not reported in governmental funds	31,450
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Revenue reported in the statement of activities in prior periods but received in the current year was reported as revenue in the governmental funds	(150,984)
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Repayment of bond and other debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	359,941
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Decrease in accumulated severance pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	94,553
--	--------

Internal Service Funds are also included as governmental activities	<u>(574,034)</u>
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Change in Net Assets of Governmental Activities **\$ (886,521)**

City of Trenton, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,909,677	\$ 4,446	\$ 1,914,123	\$ 1,749,562
Receivables:				
Taxes	212,226	-	212,226	-
Customers	1,475,509	92,290	1,567,799	-
Due from other governmental units	115,064	-	115,064	-
Prepaid costs and other assets	24,321	-	24,321	38,357
Inventories	225,220	6,915	232,135	84,464
Total current assets	3,962,017	103,651	4,065,668	1,872,383
Noncurrent assets:				
Restricted assets (Note 4)	2,067,763	-	2,067,763	-
Capital assets (Note 5)	59,375,533	10,036,289	69,411,822	1,998,091
Total noncurrent assets	61,443,296	10,036,289	71,479,585	1,998,091
Total assets	65,405,313	10,139,940	75,545,253	3,870,474
Liabilities				
Current liabilities:				
Accounts payable	396,817	64,562	461,379	47,916
Accrued and other liabilities	51,732	446,889	498,621	537,566
Current liabilities payable from restricted assets (Note 4)	443,564	-	443,564	-
Current portion of long-term debt (Note 7)	2,037,327	330,223	2,367,550	17,079
Total current liabilities	2,929,440	841,674	3,771,114	602,561
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	191,702	6,214	197,916	28,543
Long-term debt - Net of current portion (Note 7)	39,392,337	8,697,812	48,090,149	-
Total noncurrent liabilities	39,584,039	8,704,026	48,288,065	28,543
Total liabilities	42,513,479	9,545,700	52,059,179	631,104
Net Assets				
Investment in capital assets - Net of related debt	19,990,221	1,011,289	21,001,510	1,998,091
Unrestricted (deficit)	2,901,613	(417,049)	2,484,564	1,241,279
Total net assets	\$ 22,891,834	\$ 594,240	\$ 23,486,074	\$ 3,239,370

City of Trenton, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2006

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
Operating Revenue				
Sale of water	\$ 2,116,389	\$ -	\$ 2,116,389	\$ -
Sewage disposal charges	2,928,835	-	2,928,835	-
Charges for services	-	1,625,050	1,625,050	4,959,854
Other charges	163,846	-	163,846	29,239
Total operating revenue	5,209,070	1,625,050	6,834,120	4,989,093
Operating Expenses				
Cost of water	972,151	-	972,151	-
Cost of sewage disposal	1,255,778	-	1,255,778	-
Transmission and distribution	729,683	-	729,683	-
Cost of recreation activity	-	1,271,301	1,271,301	-
Depreciation	1,499,354	660,008	2,159,362	380,738
General and administrative	1,449,436	-	1,449,436	937,320
Insurance, claims, and other	-	-	-	3,964,582
Total operating expenses	5,906,402	1,931,309	7,837,711	5,282,640
Operating Loss	(697,332)	(306,259)	(1,003,591)	(293,547)
Nonoperating Revenue (Expenses)				
Property taxes	2,426,250	-	2,426,250	-
Interest income (expense) - Net	(891,943)	(253,013)	(1,144,956)	77,520
Customer capital charges	308,880	-	308,880	-
Contribution from Downtown Development Authority (DDA)	250,000	-	250,000	-
Loss on disposal of capital assets	-	-	-	(6,387)
Income (Loss) - Before capital contributions and transfers	1,395,855	(559,272)	836,583	(222,414)
Capital Contributions	-	-	-	21,316
Operating Transfers In (Note 6)	342,827	1,185,109	1,527,936	-
Operating Transfers Out (Note 6)	(50,000)	-	(50,000)	(372,936)
Change in Net Assets	1,688,682	625,837	2,314,519	(574,034)
Net Assets (Deficit) - Beginning of year	21,203,152	(31,597)	21,171,555	3,813,404
Net Assets - End of year	<u>\$ 22,891,834</u>	<u>\$ 594,240</u>	<u>\$ 23,486,074</u>	<u>\$ 3,239,370</u>

City of Trenton, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 5,322,023	\$ 1,555,642	\$ 6,877,665	\$ -
Charges for services	-	-	-	4,922,210
Payments to suppliers	(3,117,862)	(922,909)	(4,040,771)	(556,708)
Claims paid	-	-	-	(4,199,727)
Payments to employees	(1,507,060)	(436,033)	(1,943,093)	(382,827)
Other receipts	-	-	-	29,239
Net cash provided by (used in) operating activities	697,101	196,700	893,801	(187,813)
Cash Flows from Investing Activities - Interest received on investments and other assets	129,987	-	129,987	77,520
Cash Flows from Noncapital Financing Activities - Operating transfers in	292,827	385,109	677,936	-
Cash Flows from Capital and Related Financing Activities				
Interest paid on long-term debt	(1,021,930)	(253,013)	(1,274,943)	-
Principal payments on long-term debt	(1,845,738)	(6,025,000)	(7,870,738)	-
Proceeds from drawdowns of long-term debt*	1,139,069	-	1,139,069	-
Proceeds from issuance of refunding debt - Net of deferred charges	-	5,750,000	5,750,000	-
Purchases of capital assets	(2,686,066)	(57,350)	(2,743,416)	(235,247)
Collection of capital charges and DDA contribution	558,880	-	558,880	-
Property taxes	2,426,250	-	2,426,250	-
Net cash used in capital and related financing activities	(1,429,535)	(585,363)	(2,014,898)	(235,247)
Net Change in Cash and Cash Equivalents	(309,620)	(3,554)	(313,174)	(345,540)
Cash and Cash Equivalents - Beginning of year	2,843,113	8,000	2,851,113	2,095,102
Cash and Cash Equivalents - End of year	<u>2,533,493</u>	<u>\$ 4,446</u>	<u>\$ 2,537,939</u>	<u>\$ 1,749,562</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 1,909,677	\$ 4,446	\$ 1,914,123	\$ 1,749,562
Restricted cash	623,816	-	623,816	-
Total	<u>\$ 2,533,493</u>	<u>\$ 4,446</u>	<u>\$ 2,537,939</u>	<u>\$ 1,749,562</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	\$ (697,332)	\$ (306,259)	\$ (1,003,591)	\$ (293,547)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation	1,499,358	660,008	2,159,366	380,738
Changes in assets and liabilities:				
Receivables	112,953	(69,408)	43,545	-
Prepaid costs and other assets	3,850	-	3,850	(38,105)
Inventories	(148,200)	(3,015)	(151,215)	-
Accounts payable	(106,347)	729	(105,618)	(299,853)
Accrued and other liabilities	32,819	(85,355)	(52,536)	62,954
Net cash provided by (used in) operating activities	<u>\$ 697,101</u>	<u>\$ 196,700</u>	<u>\$ 893,801</u>	<u>\$ (187,813)</u>

* The drawdowns of long-term debt relate to debt obligations initiated and recognized in prior years.

Noncash - During the current year, the General Fund forgave an \$800,000 advance made to the Recreation Fund in a prior year. The amount is included in the transfers line of the statement of revenue, expenses, and changes in net assets of the Recreation Fund. **Capital and Financing Activities** - In total, the Water and Sewer Fund has obtained financing of approximately \$46,080,000, of which approximately \$1,139,000 and \$43,497,000 was drawn down in 2006 and in prior years, respectively. The remaining balance may be drawn down in future years.

In the Internal Service Funds, other funds of the City purchased vehicles and equipment totaling \$21,316 and donated them to the Motor Vehicle Pool Fund. In addition, the Motor Vehicle Pool Fund donated various vehicles with a total net book value of \$372,936 to other funds.

City of Trenton, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 1,715,566	\$ 119,610
Investments (Note 3):		
U.S. government and agency securities	5,279,628	-
Corporate stocks	23,837,101	-
Corporate bonds and asset-backed securities	2,589,851	-
Investment pools	20,723,526	-
Real estate (REIT) fund interest	1,942,318	-
Accrued interest	131,034	-
Total assets	56,219,024	<u>\$ 119,610</u>
Liabilities		
Accrued and other liabilities	-	\$ 124
Cash bonds and deposits	-	119,486
Total liabilities	-	<u>\$ 119,610</u>
Net Assets - Held in trust for pension and retiree health care	<u>\$ 56,219,024</u>	

City of Trenton, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

Additions

Investment income:	
Interest and dividends	\$ 1,682,595
Net increase in fair value of investments	5,406,714
Less investment expenses	<u>(266,576)</u>
Net investment income	6,822,733
Contributions:	
Employer	1,625,411
Employee	<u>203,464</u>
Total contributions	<u>1,828,875</u>
Total additions	8,651,608

Deductions

Benefit payments	3,146,304
Administrative expenses	<u>26,414</u>
Total deductions	<u>3,172,718</u>

Net Increase 5,478,890

Net Assets Held in Trust for Pension and Retiree Health Care

Beginning of year	<u>50,740,134</u>
End of year	<u><u>\$ 56,219,024</u></u>

City of Trenton, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2006

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Cash and investments (Note 3)	\$ 466,122	\$ 29,263	\$ 495,385
Capital assets - Net (Note 5)	<u>2,687,943</u>	<u>-</u>	<u>2,687,943</u>
Total assets	3,154,065	29,263	3,183,328
Liabilities			
Accounts payable	267,927	-	267,927
Accrued liabilities	74,044	-	74,044
Noncurrent liabilities (Note 7):			
Due within one year	50,000	20,000	70,000
Due in more than one year	<u>2,175,000</u>	<u>45,000</u>	<u>2,220,000</u>
Total liabilities	<u>2,566,971</u>	<u>65,000</u>	<u>2,631,971</u>
Net Assets (Deficit)			
Investment in capital assets - Net of related debt	462,943	-	462,943
Unrestricted	<u>124,151</u>	<u>(35,737)</u>	<u>88,414</u>
Total net assets (deficit)	<u>\$ 587,094</u>	<u>\$ (35,737)</u>	<u>\$ 551,357</u>

City of Trenton, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Downtown Development Authority:				
Special projects	\$ 315,518	\$ -	\$ -	\$ -
Interest expense	101,293	-	-	-
Brownfield Redevelopment Authority -				
Special projects	9,024	-	-	-
Total governmental activities	<u><u>\$ 425,835</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

General revenues:

Property taxes

Interest

Miscellaneous revenue

Total general revenues

Change in Net Assets

Net Assets (Deficit) - July 1, 2005

Net Assets (Deficit) - June 30, 2006

**Component Units
Statement of Activities
Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets (Deficit)		
Downtown Development Authority	Brownfield Redevelopment Authority	Total
\$ (315,518)	\$ -	\$ (315,518)
(101,293)	-	(101,293)
-	(9,024)	(9,024)
(416,811)	(9,024)	(425,835)
721,816	-	721,816
35,372	1,460	36,832
1,022	-	1,022
758,210	1,460	759,670
341,399	(7,564)	333,835
245,695	(28,173)	217,522
\$ 587,094	\$ (35,737)	\$ 551,357

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Trenton, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The City of Trenton Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government by blending it with the activities of the Recreation Fund because its primary purpose is to finance and construct the City's public buildings, including the Kennedy Recreation Center.

Discretely Presented Component Units - The following component units are reported within the component unit column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The Downtown Development Authority's governing body consists of the mayor and 11 individuals appointed by the mayor, subject to approval by the City Council.

The Brownfield Redevelopment Authority was created to facilitate the long-term redevelopment and remediation of environmentally contaminated sites within the City. The Brownfield Redevelopment Authority's governing body consists of the mayor and six individuals appointed by the mayor, subject to approval by the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

Major Taxpayers

Approximately 31 percent of property tax revenue is from two companies with properties in the City of Trenton, and approximately 29 percent of the total water, sewer, and industrial charge revenue is from three businesses located in the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the General Fund as a major governmental fund. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection system.
- The Recreation Fund accounts for activities of the recreation center.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

- The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. Included in this category are the Motor Vehicle Pool Fund and the Self-insurance Fund.
- The Pension Retirement Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified police and fire employees.
- The Other Employee Benefit Trust Fund accounts for activities and accumulates resources associated with providing postemployment benefits to retirees.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Cash held in trust by the Cash Fund for other funds is reported in the financial statements as being held by the individual funds.

Investments - Investments are stated at fair value, based on quoted market prices. Investments that do not have an established market are reported at estimated fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 and December 1 on the taxable valuation of property as of the preceding December 31. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 to 30 years
Water and sewer distribution systems	50 to 66 years
Water and sewer treatment facilities	50 years
Buildings and building improvements	15 to 50 years
Machinery, equipment, and furniture	7 to 20 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation, sick, and personal pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

The following is a summary of the unreserved fund balance of the General Fund with management's designations:

Designated:	
Equipment	\$ 1,000,000
Uninsured risks	400,000
Capital projects	600,000
Postretirement benefits	2,000,000
Defined benefit pension	500,000
Severance pay	1,270,594
Future budget stabilization	18,416
Deficit elimination of Kennedy Recreation Fund	400,000
Retiree health care	1,000,000
Receivables	<u>688,193</u>
Total designated	7,877,203
Undesignated	<u>414,432</u>
Total unreserved	<u><u>\$ 8,291,635</u></u>

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budgetary comparison schedule (non-GAAP budgetary basis) for the General Fund is included in the required supplemental information and is presented in greater detail than the accounting used in preparing the adopted budget. The budgets have been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The General Fund's current year transfers to other funds exceeded the amended budget due principally to unanticipated transfers made to other funds. The adopted budget for the nonmajor Special Revenue Funds can be obtained from City Hall.

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the City has adopted this accounting treatment. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Excess costs - Beginning of year	\$ (839,097)
Building permit revenue	359,868
Direct costs	<u>(418,183)</u>
Excess costs - End of year	<u>\$ (897,412)</u>

Excess of Expenditures over Appropriations in Budgeted Funds - During the year, the City had transfers to other funds over budget. Total budgeted transfers were \$355,000 and actual transfers were \$1,405,000, for an unfavorable variance of \$1,050,000. These transfers were approved by City Council but the budget was not amended.

Fund Deficit - The Brownfield Redevelopment Authority component unit had a deficit at June 30, 2006. The deficit will be funded primarily by property tax collections or a transfer from another fund at the City.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Police and Fire Retirement System and the Retiree Health Care Trust Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$18,240,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized (approximately \$1,515,000 of the uninsured amount is held in the Police and Fire Retirement System Trust Fund). The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy restricts bond maturities to not exceed 30 years. At year end, the average maturities of investments are as follows:

Investment Type *	Fair Value	Investment Maturities		
		Less than 5 Years	5 to 15 Years	Over 15 Years
U.S Treasury notes	\$ 1,223,790	\$ 752,293	\$ 471,497	\$ -
U.S. federal agencies	4,055,838	781,966	714,033	2,559,839
Corporate bonds and asset-backed securities	2,589,851	214,035	1,308,329	1,067,487
Total	<u>\$ 7,869,479</u>	<u>\$ 1,748,294</u>	<u>\$ 2,493,859</u>	<u>\$ 3,627,326</u>

* Police and Fire Retirement System Trust Fund assets

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits investments in fixed income securities to bond ratings not less than Baa by Moody's and/or Bbb by Standard & Poor's. Short-term fixed income securities must have a minimum rating of A-1, P-1, or F-1 as defined by Moody's, Standard & Poor's, or Fitch's Rating Services. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Real estate investments *	\$ 1,942,318	Not Rated	
U.S. Federal agencies *	316,680	AAA	Moody's
U.S. Federal agencies *	3,739,158	Not Rated	
Corporate bonds and asset-backed securities *	83,010	A1	Moody's
Corporate bonds and asset-backed securities *	190,627	A2	Moody's
Corporate bonds and asset-backed securities *	89,812	A3	Moody's
Corporate bonds and asset-backed securities *	38,772	AA1	Moody's
Corporate bonds and asset-backed securities *	68,156	AA2	Moody's
Corporate bonds and asset-backed securities *	1,270,684	AAA	Moody's
Corporate bonds and asset-backed securities *	257,676	BAA1	Moody's
Corporate bonds and asset-backed securities *	161,930	BAA2	Moody's
Corporate bonds and asset-backed securities *	26,242	BAA3	Moody's
Corporate bonds and asset-backed securities *	402,942	Not Rated	
Pooled investments *	18,701,048	Not Rated	
Pooled investments **	2,022,478	Not Rated	

* Police and Fire Retirement System Trust Fund assets

** Retiree Health Care Trust Fund assets

Note 3 - Deposits and Investments (Continued)**Foreign Currency Risk**

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system limits total assets in international equities and mutual funds to 20 percent of the total pension system's market value. The following assets are subject to foreign currency risk:

<u>Investment Type</u>	<u>Currency</u>	<u>Maturity</u>	<u>Fair Value</u>
Pooled foreign investments *	Various	N/A	\$ 7,086,944

* Police and Fire Retirement System Trust Fund assets

Note 4 - Restricted Assets

Through the fiscal year ended June 30, 2006, the City has obtained approximately \$46,080,000 of General Obligation State Revolving Fund Limited Tax Bond financing for improvements to the City's sewer system pursuant to an administrative consent order by the State of Michigan (see Note 14). The proceeds of these bonds are drawn down by the City as the funds are needed. Included in restricted assets, as an account receivable, is the amount that has not been drawn down to date. The City believes the project discussed above is substantially complete and that it will not draw down the remaining funds. Once the project is finalized, any undrawn funds will reduce the related recorded outstanding debt.

The Grosse Ile/Trenton Utility Bond restricted assets represent unspent bond proceeds that have been restricted for construction, water and sewer line replacement, and capital asset acquisitions, including unspent proceeds earning interest, from the obligation to the Grosse Ile/Trenton Utilities Authority.

The Debt Service restricted asset represents excess cash collected to the extent that property tax revenue exceeds annual debt service requirements of the State Revolving Fund General Obligation Limited Tax Bonds (see Note 9).

City of Trenton, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Restricted Assets (Continued)

A summary of primary government and component unit restricted assets and current liabilities payable from restricted assets at June 30, 2006 follows:

	Primary Government - Water and Sewer Fund			
	Grosse Ile/ Trenton			
	Administrative Consent Order Construction	Utility Bonds	Debt Service	Total Primary Government
Restricted assets:				
Cash	\$ -	\$ 459,497	\$ 164,319	\$ 623,816
Accounts receivable	1,443,947	-	-	1,443,947
Total restricted assets	<u>\$ 1,443,947</u>	<u>\$ 459,497</u>	<u>\$ 164,319</u>	<u>\$ 2,067,763</u>
Current liabilities payable from restricted assets:				
Accounts payable	\$ 279,245	\$ -	\$ -	\$ 279,245
Current portion of long-term debt	-	-	164,319	164,319
Total current liabilities payable from restricted assets	<u>\$ 279,245</u>	<u>\$ -</u>	<u>\$ 164,319</u>	<u>\$ 443,564</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental activities, business-type activities, and component unit was as follows:

	Balance July 1, 2005	Reclassifications and Transfers	Additions	Disposals	Balance June 30, 2006
Governmental activities:					
Capital assets not being depreciated - Land	\$ 1,083,387	\$ -	\$ -	\$ -	\$ 1,083,387
Capital assets being depreciated:					
Land improvements	3,769,701	35,000	128,000	-	3,932,701
Roads and sidewalks	17,889,876	-	656,787	(85,710)	18,460,953
Buildings and improvements	8,820,102	(357,291)	34,833	(101,503)	8,396,141
Vehicles	2,847,045	2,040,665	277,115	(559,732)	4,605,093
Furniture and equipment	7,071,584	(2,310,558)	164,380	(60,566)	4,864,840
Subtotal	40,398,308	(592,184)	1,261,115	(807,511)	40,259,728
Less accumulated depreciation	23,949,928	(592,184)	1,304,148	(395,327)	24,266,565
Net capital assets being depreciated	16,448,380	-	(43,033)	(412,184)	15,993,163
Net capital assets	<u>\$ 17,531,767</u>	<u>\$ -</u>	<u>\$ (43,033)</u>	<u>\$ (412,184)</u>	<u>\$ 17,076,550</u>

City of Trenton, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

	Balance July 1, 2005	Reclassifications and Transfers	Additions	Disposals	Balance June 30, 2006
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 13,500	\$ -	\$ -	\$ -	\$ 13,500
Construction in progress	3,505,271	(3,505,271)	-	-	-
Subtotal	3,518,771	(3,505,271)	-	-	13,500
Capital assets being depreciated:					
Land improvements	1,793,427	-	1,850	-	1,795,277
Water and sewer distribution systems	55,500,398	3,505,271	2,044,205	(4,322)	61,045,552
Treatment facilities	11,927,707	-	143,269	-	12,070,976
Buildings and building improvements	11,642,854	-	-	(35,852)	11,607,002
Machinery and equipment	1,755,739	592,184	594,262	(25,872)	2,916,313
Subtotal	82,620,125	4,097,455	2,783,586	(66,046)	89,435,120
Less accumulated depreciation	17,311,124	592,184	2,159,362	(25,872)	20,036,798
Net capital assets being depreciated	65,309,001	3,505,271	624,224	(40,174)	69,398,322
Net capital assets	\$ 68,827,772	\$ -	\$ 624,224	\$ (40,174)	\$ 69,411,822
Components units:					
Capital assets not being depreciated - Construction in progress	\$ -	\$ -	\$ 593,397	\$ -	\$ 593,397
Capital assets being depreciated - Land improvements	1,793,057	-	353,019	-	2,146,076
Less accumulated depreciation	-	-	51,530	-	51,530
Net capital assets being depreciated	1,793,057	-	301,489	-	2,094,546
Net capital assets	\$ 1,793,057	\$ -	\$ 894,886	\$ -	\$ 2,687,943

City of Trenton, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 418,870
Public safety	111,074
Public works	9,548
Recreation and culture	383,918
Internal Service Fund depreciation is charged to various functions based on their usage of the asset	<u>380,738</u>
Total governmental activities	<u><u>\$ 1,304,148</u></u>

Business-type activities:

Water and sewer	\$ 1,499,354
Recreation	<u>660,008</u>
Total business-type activities	<u><u>\$ 2,159,362</u></u>

Component unit - Downtown Development Authority	<u><u>\$ 51,530</u></u>
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Note 6 - Interfund Transfers

The composition of interfund transfers at the fund level is as follows:

	Transfers Out				Total
	General Fund	Other Governmental Funds	Business-type Activities	Internal Service Funds	
Transfers in:					
General Fund	\$ -	\$ -	\$ 50,000	\$ -	\$ 50,000
Other governmental funds	250,000	622,039	-	-	872,039
Business-type activities	<u>1,155,000</u>	<u>-</u>	<u>-</u>	<u>372,936</u>	<u>1,527,936</u>
Total	<u><u>\$ 1,405,000</u></u>	<u><u>\$ 622,039</u></u>	<u><u>\$ 50,000</u></u>	<u><u>\$ 372,936</u></u>	<u><u>\$ 2,449,975</u></u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations and projects accounted for in the respective funds.

Note 6 - Interfund Transfers (Continued)

Included in General Fund transfers is \$800,000 transferred to the Recreation Fund in conjunction with the forgiveness of a long-term advance from the General Fund to the Recreation Fund.

The Internal Service Fund transfers represent vehicles transferred from the Motor Pool Fund to the Water and Sewer Fund and the Recreation Fund. The vehicles were transferred at net book value.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Maturing Through	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental activities:							
General obligation unlimited tax bonds - Library Bonds - Amount of issue - \$4,000,000	2013	3.900% - 5.875%	\$300,000 - \$500,000	\$ 2,950,000	\$ (250,000)	\$ 2,700,000	\$ 300,000
Installment purchase agreements:							
District Court (see Note 13) - Amount of issue - \$340,000 (City's estimated share)	2006	4.7%	Varies	45,779	(45,779)	-	-
Computer equipment and software - Amount of issue - \$320,810	2010	3.49%	\$64,162	256,648	(64,162)	192,486	64,162
Total installment purchase agreements				302,427	(109,941)	192,486	64,162
Other long-term obligations:							
Compensated absences				2,518,223	(87,590)	2,430,633	1,096,892
Uninsured claims				400,000	-	400,000	400,000
Total other long-term obligations				2,918,223	(87,590)	2,830,633	1,496,892
Total governmental activities				6,170,650	(447,531)	5,723,119	1,861,054

City of Trenton, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

	Maturing Through	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type activities:							
General obligation bonds:							
Water and Sewer Fund Contractual Obligation - Related to Grosse Ile/Trenton Utilities Authority Bonds, Series B - Amount of issue - \$1,999,850	2018	4.20% - 6.25%	\$95,738 - \$148,925	\$ 1,648,813	\$ (95,738)	\$ 1,553,075	\$ 95,738
State Revolving Fund Limited Tax Bonds - Program 5127-01 - Amount of issue - \$12,095,000	2021	2.5%	\$520,000 - \$760,000	10,135,000	(520,000)	9,615,000	535,000
State Revolving Fund Limited Tax Bonds - Program 5127-02 - Amount of issue - \$16,535,000	2022	2.5%	\$685,000 - \$1,035,000	14,550,000	(695,000)	13,855,000	715,000
State Revolving Fund Limited Tax Bonds - Program 5127-03 - Amount of issue - \$1,005,000	2024	2.5%	\$40,000 - \$65,000	925,000	(40,000)	885,000	40,000
State Revolving Fund Limited Tax Bonds - Program 5127-04 - Amount of issue - \$10,325,000	2024	2.5%	\$415,000 - \$650,000	9,920,000	(415,000)	9,505,000	425,000
State Revolving Fund Limited Tax Bonds - Program 5127-05 - Amount of issue - \$1,990,000	2025	2.5%	\$80,000 - \$125,000	1,990,000	(80,000)	1,910,000	80,000
State Revolving Fund Limited Tax Bonds - Program 5127-06 - Amount of issue - \$4,130,000	2026	2.5%	\$170,000 - \$250,000	4,130,000	-	4,130,000	170,000
Building Authority Bonds - Amount of issue - \$1,800,000	2022	3.00% - 4.60%	\$75,000 - \$140,000	1,800,000	(75,000)	1,725,000	75,000
Building Authority Bonds - Amount of issue - \$8,000,000	2011	5.125% - 5.625%	\$250,000 - \$400,000	7,500,000	(5,950,000)	1,550,000	250,000
Building Authority Refunding Bonds - Amount of issue - \$6,115,000	2021	3.25 % - 5.00%	\$25,000 - \$635,000	-	6,115,000	6,115,000	25,000
Building Authority Refunding Bonds - Deferred charges				-	(365,000)	(365,000)	(22,812)
Total general obligation bond				52,598,813	(2,120,738)	50,478,075	2,387,926
Other long-term obligations:							
Advance from General Fund Amount of issue - \$1,000,000	2013	5.125% - 5.625%	Varies	800,000	(800,000)	-	-
Compensated absences				311,874	29,985	341,859	143,943
Total other long-term liabilities				1,111,874	(770,015)	341,859	143,943
Total business-type activities				53,710,687	(2,890,753)	50,819,934	2,531,869
Total governmental activities and business-type activities				\$ 59,881,337	\$ (3,338,284)	\$ 56,543,053	\$ 4,392,923
Component units:							
General obligation limited tax bonds - Downtown							
Development Authority Bonds - Amount of issue - \$1,400,000	2023	3.8% - 5.5%	\$25,000 - \$100,000	\$ 1,350,000	\$ (25,000)	\$ 1,325,000	\$ 25,000
General obligation limited tax bonds - Downtown							
Development Authority Bonds - Amount of issue - \$920,000	2024	3.8% - 5.5%	\$20,000 - \$90,000	920,000	(20,000)	900,000	25,000
Other long-term obligations - Brownfield Authority							
Advance from General Fund - Amount of issue - \$135,000	2008	1.45%	\$20,000 - \$25,000	65,000	-	65,000	20,000
Total component units				\$ 2,335,000	\$ (45,000)	\$ 2,290,000	\$ 70,000

* Business-type activities long-term debt of \$50,478,075 includes \$314,567 of current liabilities payable from restricted assets (see Note 4).

Note 7 - Long-term Debt (Continued)

Approximately 24.5 percent of the installment purchase agreement for computer equipment and software relates to the acquisition of computer equipment and software on behalf of the Shared Information Network Consortium (S.I.N.C.), a Special Revenue Fund. The City expects that this percentage of the debt service will be provided by S.I.N.C. The consortium, which is essentially a cost-sharing arrangement between six communities including the City, will provide computer services to its member communities' law enforcement agencies. The consortium expects to obtain its required operating revenue from funds obtained from the District Court's technology fund. Any costs not covered by the technology fund will be funded by the participating communities.

The compensated absences liability represents the estimated liability to be paid to employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the City.

The Water and Sewer Contractual Obligation represents the City's obligation to service a portion of a \$4,700,000 bond issued by the Grosse Ile - Trenton Utilities Authority representing the percentage of the total bond proceeds that was disbursed to the City for system construction projects. The City's transactions with the Authority are limited to the issuance and repayment of this obligation (see Note 13).

The Downtown Development Authority Bonds represent monies to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The City has pledged its full faith and credit in support of these obligations.

The long-term advance from the General Fund to the Recreation Fund represents monies advanced to cover a portion of the costs associated with constructing the new Kennedy Recreation Center. The advance was forgiven in the current year.

The long-term advance from the General Fund to the Brownfield Redevelopment Authority represents monies advanced to cover a portion of the costs associated with long-term redevelopment and remediation of environmentally contaminated sites within the Brownfield District. The advance is to be repaid, with interest, from property taxes captured by the Brownfield Redevelopment Authority.

Note 7 - Long-term Debt (Continued)

Annual debt service requirements, exclusive of compensated absences and uninsured claims, to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 364,162	\$ 112,078	\$ 476,240	\$ 2,387,926	\$ 1,369,440	\$ 3,757,366	\$ 70,000	\$ 98,950	\$ 168,950
2008	414,162	95,614	509,776	2,507,924	1,326,124	3,834,048	100,000	95,813	195,813
2009	414,162	77,887	492,049	2,589,200	1,272,284	3,861,484	95,000	91,988	186,988
2010	400,000	59,700	459,700	2,634,200	1,195,997	3,830,197	75,000	88,588	163,588
2011	400,000	42,900	442,900	2,794,200	1,095,836	3,890,036	75,000	85,575	160,575
2012-2016	900,000	37,050	937,050	15,243,650	4,151,683	19,395,333	595,000	362,923	957,923
2017-2021	-	-	-	16,833,788	1,761,385	18,595,173	815,000	202,838	1,017,838
2022-2026	-	-	-	5,487,187	132,145	5,619,332	465,000	27,308	492,308
Total	<u>\$ 2,892,486</u>	<u>\$ 425,229</u>	<u>\$ 3,317,715</u>	<u>\$ 50,478,075</u>	<u>\$ 12,304,894</u>	<u>\$ 62,782,969</u>	<u>\$ 2,290,000</u>	<u>\$ 1,053,983</u>	<u>\$ 3,343,983</u>

Total interest expense incurred by the City for the year approximated \$1,387,000.

The General Obligation Limited Tax Bonds accrue interest only on the amount drawn down to date; therefore, the annual debt service requirements for interest expense assumes the City will draw down the entire amount of the total \$46,080,000 original balance of the General Obligation Limited Tax Bonds at the beginning of the next fiscal year. The actual amount of interest and principal paid may be less.

During the year, the City refunded \$5,750,000, a portion of the 2000 Ice Arena Building Authority Bonds with an average interest rate of 5.375 percent used to finance the construction of the ice arena. These bonds were refunded through the issuance of \$6,115,000 of 2005 Building Authority Refunding Bonds with an average interest rate of 4.125 percent. The net proceeds of \$6,216,253 (after payment of \$150,655 in underwriter's fees and issuance costs and consideration of a premium received of \$251,908) were used to purchase government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the statements of net assets. The advance refunding reduced total debt service payments over the next 16 years by \$416,372, which represents an economic gain of \$289,667.

City of Trenton, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2006, the City had deferred revenue related to grant monies received prior to meeting all eligibility requirements of \$1,284,476.

Note 9 - Property Taxes

Property taxes for the City based on a taxable value of approximately \$817,000,000 are comprised of the following components:

	General Fund			Special Revenue Fund		Enterprise Fund
	Firemen and Policemen Pension Plan	Solid Waste	Operating	Other Tax Collection and Trailer Park Fees	Library Operating and Library Debt	Total Governmental Activities Sewer Debt
Millage rate	1.4451	1.2295	14.5649	-	0.8591	18.0986
Total	\$ 1,180,248	\$ 1,004,162	\$ 11,895,501	\$ 260,469	\$ 709,220	\$ 15,049,600
						\$ 2,426,250

The firemen and policemen pension plan, solid waste, library operating and debt service, and sewer debt mills were approved specifically for the use in funding a pension plan, providing particular services by the City, and funding certain debt service requirements. To the extent that property taxes levied for sewer debt exceeded the related debt service expenditures, the revenue has been included in restricted assets of the Water and Sewer Fund and net assets have been restricted.

Note 10 - Postemployment Benefits

The City provides life insurance and health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 194 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and life insurance benefits include insurance premiums that become due during the current year and contributions made to the Retiree Health Care Trust Fund. Total expense was approximately \$2,711,000, which includes \$2,311,000 for insurance premiums and a \$400,000 contribution to the Retiree Health Care Trust Fund, for the year ended June 30, 2006.

Note 10 - Postemployment Benefits (Continued)

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers’ compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League (risk pool) for claims relating to property loss, general liability, and workers’ compensation. The City has also assumed a significant amount of financial responsibility for its actual incurred medical claims cost, subject to certain insured aggregate limitations of \$75,000 per specific claim and approximately \$2,500,000 in the aggregate.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 11 - Risk Management (Continued)

The City estimates the liability for medical and other claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are generally recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability are as follows:

	2006	2005
Estimated liability - Beginning of year	\$ 868,894	\$ 851,789
Estimated claims incurred, including charges in estimates and related administrative costs	3,964,582	3,086,827
Claim and related administrative payments	<u>(3,908,275)</u>	<u>(3,069,722)</u>
Estimated liability - End of year	<u>\$ 925,201</u>	<u>\$ 868,894</u>

A total of \$400,000 of the total estimated liability, related to a personal property tax dispute, has been recorded in long-term debt (see Note 7). The remaining liability represents the accrual for claims incurred but not reported and is recorded in accrued and other liabilities of the Self-insurance Internal Service Fund.

Note 12 - Pension Plans**Defined Benefit Plans Descriptions**

Municipal Employees' Retirement System of Michigan - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City hired before January 1, 1996, other than firemen and policemen. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Note 12 - Pension Plans (Continued)

Firemen and Policemen Retirement System - The City contributes to the Firemen and Policemen Retirement System, which is the administrator of a single-employer public benefit pension plan that currently covers substantially all full-time fire and police employees hired before January 1, 1996. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 99 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 56 current active employees. The plan does not issue a separate financial report.

Defined Benefit Contributions and Funding Status

Municipal Employees' Retirement System of Michigan - Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of approximately 3 percent to 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Firemen and Policemen Retirement System - Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent. Administrative costs of the plan are financed through investment earnings.

Note 12 - Pension Plans (Continued)

Defined Benefit Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$517,429 for the MERS plan, exclusive of \$138,105 of employee contributions, was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, (c) additional projected salary increases of 0 percent to 4.16 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases of 2.5 percent annually, limited cumulative to increases in the Consumer Price Index. Both (a) and (b) include an inflation component of 4.5 percent.

The actuarial value of assets was determined on the basis of a valuation method that uses techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll determined using the individual attained age actuarial funding method over an open amortization period of 30 years.

For the year ended June 30, 2006, the City's annual Firemen and Policemen Retirement System's pension cost for the plan and its actual contribution, exclusive of \$203,464 of employee contributions, were equal to the City's \$1,225,411 required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004, using the aggregate actuarial cost method. Significant actuarial assumptions used include (a) an 8.35 percent investment rate of return per year through 2005, graded to 7.0 percent in 2015 and thereafter, (b) projected salary increases of 4.0 percent per year, (c) additional projected salary increases of .2 percent to 2.3 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases of 10 percent after five years, 10 percent after 10 years, and 5 percent after 15 years. Both (a) and (b) include an inflation component of 3.50 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is seven years at June 30, 2006.

Note 12 - Pension Plans (Continued)

Reserves - As of June 30, 2006, the Firemen and Policemen Retirement System plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 3,038,998
Reserve for retired benefit payments	31,949,836

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2004	2005	2006
Municipal Employees' Retirement System of Michigan:			
Annual pension costs (APC)	\$ 530,173	\$ 544,173	\$ 517,429
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 28,356,684	\$ 29,028,412	\$ 29,398,634
Actuarial accrued liability (AAL)	\$ 35,988,807	\$ 37,865,871	\$ 39,805,214
Unfunded AAL (UAAL)	\$ 7,632,123	\$ 8,837,459	\$ 10,406,580
Funded ratio	79%	77%	74%
Covered payroll	\$ 3,699,558	\$ 3,235,182	\$ 2,834,457
UAAL as a percentage of covered payroll	206%	273%	367%
Firemen and Policemen Retirement System:			
Annual pension costs (APC)	\$ 883,109	\$ 1,154,506	\$ 1,225,411
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Defined Contribution Pension Plans

Full-time employees hired after January 1, 1996 (except the AFSCME Local 292, for which the effective date was July 1, 1996) do not become members of either of the two defined benefit pension plans discussed above. Rather, they participate in one of the City's two defined contribution plans: the General Employees' Money Purchase Plan ("General Employees Plan") or the City of Trenton Fire Fighters and Police Officers Money Purchase Plan ("Fire Fighters and Police Officers Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

As established by various employee competitive bargaining units, the City contributes 6 percent and 12 percent of employees' gross earnings for the General Employees Plan and Fire Fighters and Police Officers Plan, respectively, and the employees contribute 6 percent of earnings for both plans. The City's contributions for each employee plus interest allocated to the employee's account are fully vested after five years of service.

Note 12 - Pension Plans (Continued)

In accordance with these requirements, the City contributed \$188,688 and \$154,584 during the current year and the employees contributed \$188,688 and \$77,277 during the current year for the General Employees Plan and Fire Fighters and Police Officers Plan, respectively. The plans' assets, which aggregated \$2,043,797 at June 30, 2006, are held by an independent third-party administrator.

Note 13 - Joint Ventures

33rd District Court System

The City is a member of the 33rd District Court System (the "District Court"), which provides judicial services to the City and various other surrounding communities. The City appoints one member to the joint venture's governing board, which then approves the annual budget.

During the current year, the District Court paid approximately \$24,000 to the City, representing the City's share of the District Court's net activity. Complete financial statements are available at the City offices. The District Court receives its operating revenue principally through contributions from member communities, fines, and forfeitures.

The City and various other surrounding communities had previously entered into an installment purchase agreement with a bank on behalf of the District Court to finance the construction of an addition to the District Court facility. This obligation was retired in the current year.

Grosse Ile-Trenton Utilities Authority

The City is also a member of the Grosse Ile-Trenton Utilities Authority (the "Authority") joint venture. The Authority's governing body is composed of two appointees, one from each member of the joint venture. The Authority was established in order to provide an efficient means of acquiring and constructing water supply and sewage disposal systems and to extend use privileges to each other's residents where deemed appropriate by the communities.

Note 14 - Commitment

The City is currently under an Administrative Consent Order (A.C.O.) by the State of Michigan to eliminate sanitary sewer overflows to the Detroit River. This undertaking was estimated to be a 10-year project to evaluate the entire system, identify the deficiencies, and to develop corrective plans for construction. The City has incurred approximately \$49,900,000 of related construction expenditures through June 30, 2006. As of June 30, 2006, the City believes it has substantially fulfilled this commitment.

Required Supplemental Information

City of Trenton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 8,850,213	\$ 8,850,213	\$ 8,850,213	\$ -
Resources (Inflows)				
Property taxes	14,207,334	14,207,334	14,340,380	133,046
Licenses and permits	471,300	471,300	359,868	(111,432)
State sources	2,243,831	2,243,831	2,249,831	6,000
Charges for services	599,050	599,050	841,041	241,991
Fines and forfeitures	360,500	360,500	408,129	47,629
Interest income	344,000	344,000	626,060	282,060
Other	1,349,739	1,349,739	528,730	(821,009)
Transfer from other funds	-	-	50,000	50,000
Total resources (inflows)	19,575,754	19,575,754	19,404,039	(171,715)
Charges to Appropriations (Outflows)				
General government:				
Mayor and Council	111,006	111,006	95,244	15,762
District Court	383,940	383,940	379,994	3,946
City administrator	305,669	305,669	304,354	1,315
City clerk - Elections	45,057	45,057	30,492	14,565
City assessor	198,873	202,373	254,230	(51,857)
City attorney	191,000	191,000	167,538	23,462
City clerk - General	179,103	179,103	172,795	6,308
City controller	249,396	249,396	246,120	3,276
Tax Review Board	1,960	1,960	1,430	530
City treasurer	168,492	168,492	168,556	(64)
Municipal buildings/facilities	1,098,876	1,098,876	1,033,285	65,591
Planning Commission	15,000	15,000	17,223	(2,223)
Zoning Board of Appeals	1,020	1,020	915	105
Building Board of Appeals	390	390	-	390
Central office	240,727	240,727	249,285	(8,558)
Total general government	3,190,509	3,194,009	3,121,461	72,548
Public safety:				
Police department	4,513,093	4,548,093	4,537,143	10,950
Traffic Safety Commission	1,150	1,150	795	355
Fire department	3,317,048	3,317,048	3,313,709	3,339
Emergency	168,854	168,854	165,272	3,582
Corrections department/Jail	46,700	46,700	35,536	11,164
Building inspection	477,490	477,490	418,183	59,307
Civil defense	21,445	21,445	21,073	372
Crossing guards	74,202	74,202	72,324	1,878
Total public safety	8,619,982	8,654,982	8,564,035	90,947

Note - The above General Fund charges to appropriations (outflows) - budget and actual is for additional information only, and represents greater detail than the adopted budget, except for department totals.

City of Trenton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows) (Continued)				
Public works:				
Department of Public Works	\$ 1,414,547	\$ 1,269,547	\$ 1,210,355	\$ 59,192
City engineer	482,859	482,859	467,455	15,404
Street lighting	601,000	601,000	610,597	(9,597)
Sanitation	1,042,518	1,187,518	1,134,361	53,157
Protection to animals	80,692	80,692	74,007	6,685
Total public works	3,621,616	3,621,616	3,496,775	124,841
Health and welfare - Environmental Control				
Commission	500	500	-	500
Culture and recreation:				
Parks department	589,459	589,459	588,159	1,300
Cultural Center	23,480	23,480	26,546	(3,066)
Historical Commission	6,900	6,900	5,997	903
Library Commission	400	400	660	(260)
Cultural Commission	4,580	4,580	1,436	3,144
Recreation Commission	1,350	1,350	600	750
Civic Commission	16,980	16,980	17,225	(245)
Beautification Commission	3,660	3,660	877	2,783
Total culture and recreation	646,809	646,809	641,500	5,309
Other	3,108,338	3,069,838	2,584,797	485,041
Debt service	33,000	33,000	27,214	5,786
Transfers to other funds	355,000	355,000	1,405,000	(1,050,000)
Total charges to appropriations (outflows)	19,575,754	19,575,754	19,840,782	(265,028)
Fund Balance - End of year	\$ 8,850,213	\$ 8,850,213	\$ 8,413,470	\$ (436,743)

Note - The above General Fund charges to appropriations (outflows) - budget and actual is for additional information only, and represents greater detail than the adopted budget, except for department totals.

City of Trenton, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress* June 30, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio Percent (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<u>Firemen and Policemen Retirement System</u>						
6/30/00 (1) \$	44,798,847	\$ 44,798,847	-	100	\$ 4,656,993	-
6/30/01	46,679,422	46,679,422	-	100	4,606,237	-
6/30/02	46,492,395	46,492,395	-	100	4,521,806	-
6/30/03	45,598,928	45,598,928	-	100	4,364,481	-
6/30/04	45,716,012	45,716,012	-	100	4,132,159	-
6/30/05	49,342,884	49,342,884	-	100	4,023,462	-

(1) Revised actuarial assumptions or methods

* Required by Governmental Accounting Standards Board Statement No. 25

City of Trenton, Michigan

Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2006

Firemen and Policemen Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
06/30/01	06/30/99	\$ 640,555	100
06/30/02	06/30/00	741,372	100
06/30/03	06/30/01	695,508	100
06/30/04	06/30/02	883,109	100
06/30/05	06/30/03	1,154,506	100
06/30/06	06/30/04	1,225,411	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date for the Firemen and Policemen Retirement System, is as follows:

Firemen and Policemen Retirement System

Actuarial cost method	Aggregate actuarial cost method
Amortization method	Level over future working lifetime
Remaining amortization period	7 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.35% through 2005, graded to 7% at 10 years and thereafter
Projected salary increases*	4.2% - 12.0%
*Includes inflation at	3.5%
Postretirement benefit increases	10% after 5 years, 10% after 10 years, and 5% after 15 years

Other Supplemental Information

City of Trenton, Michigan

	Special Revenue					
	Major Roads	Local Roads	Community Development Block Grant	Severance Pay	Special Projects	Grant
Assets						
Cash and investments	\$ 468,618	\$ 10,499	\$ 83,708	\$ 1,191,906	\$ 601,821	\$ 438,629
Receivables	-	4,813	4,102	-	-	-
Due from other governmental units	117,270	50,635	-	-	-	826,696
Total assets	<u>\$ 585,888</u>	<u>\$ 65,947</u>	<u>\$ 87,810</u>	<u>\$ 1,191,906</u>	<u>\$ 601,821</u>	<u>\$ 1,265,325</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 41,257	\$ 17,763	\$ 3,383	\$ -	\$ 16,225	\$ 11,570
Accrued and other liabilities	1,921	1,922	-	31,867	-	-
Deferred revenue	-	-	19,794	-	-	1,118,874
Total liabilities	43,178	19,685	23,177	31,867	16,225	1,130,444
Fund Balances - Unreserved and undesignated	<u>542,710</u>	<u>46,262</u>	<u>64,633</u>	<u>1,160,039</u>	<u>585,596</u>	<u>134,881</u>
Total liabilities and fund balances	<u>\$ 585,888</u>	<u>\$ 65,947</u>	<u>\$ 87,810</u>	<u>\$ 1,191,906</u>	<u>\$ 601,821</u>	<u>\$ 1,265,325</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

Funds			
Library	S.I.N.C.	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 337,411	\$ 79,298	\$ 1,768,746	\$ 4,980,636
3,827	185,051	-	197,793
18,627	-	-	1,013,228
<u>\$ 359,865</u>	<u>\$ 264,349</u>	<u>\$ 1,768,746</u>	<u>\$ 6,191,657</u>
\$ 97,045	\$ 3,623	\$ 4,500	\$ 195,366
752	-	-	36,462
-	145,808	-	1,284,476
97,797	149,431	4,500	1,516,304
262,068	114,918	1,764,246	4,675,353
<u>\$ 359,865</u>	<u>\$ 264,349</u>	<u>\$ 1,768,746</u>	<u>\$ 6,191,657</u>

City of Trenton, Michigan

	Special Revenue					
	Major Roads	Local Roads	Community Development Block Grant	Severance Pay	Special Projects	Grant
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	113,000	-	-	173,592
State sources	710,213	306,658	-	-	-	42,597
Interest income	32,660	-	-	41,555	-	-
Other	49,352	3,620	-	-	273,698	-
Total revenue	792,225	310,278	113,000	41,555	273,698	216,189
Expenditures						
Current:						
Public works department	632,064	1,112,908	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Special projects	-	-	113,000	-	226,575	230,218
Other	-	-	-	72,479	-	-
Debt service	-	-	-	-	-	-
Total expenditures	632,064	1,112,908	113,000	72,479	226,575	230,218
Excess of Revenue Over (Under) Expenditures	160,161	(802,630)	-	(30,924)	47,123	(14,029)
Other Financing Sources (Uses)						
Transfers in	-	622,039	-	250,000	-	-
Transfers out	(622,039)	-	-	-	-	-
Total other financing sources (uses)	(622,039)	622,039	-	250,000	-	-
Net Change in Fund Balances	(461,878)	(180,591)	-	219,076	47,123	(14,029)
Fund Balances - Beginning of year	1,004,588	226,853	64,633	940,963	538,473	148,910
Fund Balances - End of year	\$ 542,710	\$ 46,262	\$ 64,633	\$ 1,160,039	\$ 585,596	\$ 134,881

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2006

Funds				
Library	S.I.N.C.	Capital Projects Fund	Total Nonmajor Governmental Funds	
\$ 709,220	\$ -	\$ -	\$ 709,220	
-	-	-	286,592	
-	-	-	1,059,468	
19,932	2,176	70,325	166,648	
<u>72,216</u>	<u>244,648</u>	<u>12,840</u>	<u>656,374</u>	
801,368	246,824	83,165	2,878,302	
-	-	-	1,744,972	
380,490	-	-	380,490	
-	118,089	28,009	715,891	
-	-	-	72,479	
<u>369,600</u>	<u>72,405</u>	<u>-</u>	<u>442,005</u>	
<u>750,090</u>	<u>190,494</u>	<u>28,009</u>	<u>3,355,837</u>	
51,278	56,330	55,156	(477,535)	
-	-	-	872,039	
<u>-</u>	<u>-</u>	<u>-</u>	<u>(622,039)</u>	
-	-	-	250,000	
51,278	56,330	55,156	(227,535)	
<u>210,790</u>	<u>58,588</u>	<u>1,709,090</u>	<u>4,902,888</u>	
<u>\$ 262,068</u>	<u>\$ 114,918</u>	<u>\$ 1,764,246</u>	<u>\$ 4,675,353</u>	

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2006

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
Assets			
Current assets:			
Cash and investments	\$ 632,867	\$ 1,116,695	\$ 1,749,562
Prepaid costs and other assets	62	38,295	38,357
Inventories	84,464	-	84,464
Total current assets	717,393	1,154,990	1,872,383
Noncurrent assets - Capital assets	1,998,091	-	1,998,091
Total assets	2,715,484	1,154,990	3,870,474
Liabilities			
Current liabilities:			
Accounts payable	41,047	6,869	47,916
Accrued liabilities	10,491	527,075	537,566
Current portion of compensated absences	17,079	-	17,079
Total current liabilities	68,617	533,944	602,561
Noncurrent liabilities - Provision for compensated absences	28,543	-	28,543
Total liabilities	97,160	533,944	631,104
Net Assets			
Invested in capital assets	1,998,091	-	1,998,091
Unrestricted	620,233	621,046	1,241,279
Total net assets	<u>\$ 2,618,324</u>	<u>\$ 621,046</u>	<u>\$ 3,239,370</u>

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2006

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
Operating Revenue			
Charges for services	\$ 1,560,696	\$ 3,399,158	\$ 4,959,854
Other	41	29,198	29,239
	<u>1,560,737</u>	<u>3,428,356</u>	<u>4,989,093</u>
Operating Expenses			
Insurance, claims, and other	-	3,964,582	3,964,582
General and administrative expenses	937,320	-	937,320
Depreciation	380,738	-	380,738
	<u>1,318,058</u>	<u>3,964,582</u>	<u>5,282,640</u>
Operating Income (Loss)	242,679	(536,226)	(293,547)
Nonoperating Income (Expense)			
Interest income	17,252	60,268	77,520
Loss on disposal of capital assets	(6,387)	-	(6,387)
	<u>10,865</u>	<u>60,268</u>	<u>71,133</u>
Income (Loss) - Before capital contributions and transfers	253,544	(475,958)	(222,414)
Capital Contributions	21,316	-	21,316
Transfers to Other Funds	(372,936)	-	(372,936)
Net Loss	(98,076)	(475,958)	(574,034)
Net Assets - Beginning of year	<u>2,716,400</u>	<u>1,097,004</u>	<u>3,813,404</u>
Net Assets - End of year	<u><u>\$ 2,618,324</u></u>	<u><u>\$ 621,046</u></u>	<u><u>\$ 3,239,370</u></u>

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2006

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
Cash Flows from Operating Activities			
Charges for services	\$ 1,560,696	\$ 3,361,514	\$ 4,922,210
Payments to suppliers	(556,708)	-	(556,708)
Claims paid	-	(4,199,727)	(4,199,727)
Payments to employees	(382,827)	-	(382,827)
Other receipts	41	29,198	29,239
Net cash provided by (used in) operating activities	621,202	(809,015)	(187,813)
Cash Flows from Investing Activities - Interest received on investments and other assets	17,252	60,268	77,520
Cash Flows from Capital and Related Financing Activities - Purchase of capital assets	(235,247)	-	(235,247)
Net Change in Cash and Cash Equivalents	403,207	(748,747)	(345,540)
Cash and Cash Equivalents - July 1, 2005	229,660	1,865,442	2,095,102
Cash and Cash Equivalents - June 30, 2006	<u>\$ 632,867</u>	<u>\$ 1,116,695</u>	<u>\$ 1,749,562</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 242,679	\$ (536,226)	\$ (293,547)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	380,738	-	380,738
Changes in assets and liabilities:			
Prepaid costs and other assets	(461)	(37,644)	(38,105)
Accounts payable	(8,465)	(291,388)	(299,853)
Accrued and other liabilities	6,711	56,243	62,954
Net cash provided by (used in) operating activities	<u>\$ 621,202</u>	<u>\$ (809,015)</u>	<u>\$ (187,813)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2006, other funds of the City purchased vehicles and equipment totaling \$21,316 and donated them to the Motor Vehicle Pool Fund. In addition, the Motor Vehicle Pool Fund donated various vehicles with a total net book value of \$372,936 to the City's Enterprise Funds.

City of Trenton, Michigan

	Trust Funds		
	Police and Fire		
	Retirement	Retiree Health	
	System	Care	Total Trust Funds
Assets			
Cash and investments	\$ 54,065,512	\$ 2,022,478	\$ 56,087,990
Receivables	131,034	-	131,034
Due from other funds	-	-	-
Total assets	<u>\$ 54,196,546</u>	<u>\$ 2,022,478</u>	<u>\$ 56,219,024</u>
Liabilities and Fund Balances			
Liabilities			
Accrued and other liabilities	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Due to component units	-	-	-
Cash bonds and deposits	-	-	-
Total liabilities	-	-	-
Fund Balances - Held in trust for pension and other employee benefits	<u>54,196,546</u>	<u>2,022,478</u>	<u>56,219,024</u>
Total liabilities and fund balances	<u>\$ 54,196,546</u>	<u>\$ 2,022,478</u>	<u>\$ 56,219,024</u>

**Other Supplemental Information
Combining Balance Sheet
Fiduciary Funds
June 30, 2006**

Agency Funds					
General Cash Fund	Escrow Fund	Wayne County and School Tax Fund	Subtotal	Eliminations	Total Agency Funds
\$ 17,596,210	\$ 119,486	\$ -	\$ 17,715,696	\$ (17,596,086)	\$ 119,610
-	-	-	-	-	-
1,994,784	-	-	1,994,784	(1,994,784)	-
\$ 19,590,994	\$ 119,486	\$ -	\$ 19,710,480	\$ (19,590,870)	\$ 119,610
\$ 124	\$ -	\$ -	\$ 124	\$ -	\$ 124
19,095,485	-	-	19,095,485	(19,095,485)	-
495,385	-	-	495,385	(495,385)	-
-	119,486	-	119,486	-	119,486
19,590,994	119,486	-	19,710,480	(19,590,870)	119,610
-	-	-	-	-	-
\$ 19,590,994	\$ 119,486	\$ -	\$ 19,710,480	\$ (19,590,870)	\$ 119,610

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds June 30, 2006

	Pension Trust Fund	Retiree Health Care Trust Fund	Total
Additions			
Investment income:			
Interest and dividends	\$ 1,682,595	\$ -	\$ 1,682,595
Net increase in fair value of investments	5,181,486	225,228	5,406,714
Less investment expenses	(266,576)	-	(266,576)
Net investment income	6,597,505	225,228	6,822,733
Contributions:			
Employer	1,225,411	400,000	1,625,411
Employee	203,464	-	203,464
Total contributions	1,428,875	400,000	1,828,875
Total additions	8,026,380	625,228	8,651,608
Deductions			
Benefit payments	3,146,304	-	3,146,304
Administrative expenses	26,414	-	26,414
Total deductions	3,172,718	-	3,172,718
Net Increase	4,853,662	625,228	5,478,890
Net Assets Held in Trust for Pension and Retiree Health Care			
Beginning of year	49,342,884	1,397,250	50,740,134
End of year	<u>\$ 54,196,546</u>	<u>\$ 2,022,478</u>	<u>\$ 56,219,024</u>



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December 21, 2006

To the Honorable Mayor and Members
of the City Council
City of Trenton
2800 Third Street
Trenton, MI 48183

Dear Council Members:

We recently completed the audit of the financial statements of the City of Trenton for the year ended June 30, 2006. In addition to the audit report, we offer the following comments for your consideration.

State Funding Overview

State-shared revenue accounted for approximately 12 percent of the City's General Fund revenue for the year ended June 30, 2006. These percentages have eroded over the past six years, due to the State's economic troubles. The following chart depicts the City's actual revenue-sharing payments over a six-year period from the State's fiscal year ended September 30, 2001 through the fiscal year ended September 30, 2006:

	<u>Actual FY 2001</u>	<u>Actual FY 2002</u>	<u>Actual FY 2003</u>	<u>Actual FY 2004</u>	<u>Actual FY 2005</u>	<u>Actual FY 2006</u>
Constitutional	\$ 1,270,848	\$ 1,283,793	\$ 1,305,528	\$ 1,291,348	\$ 1,282,491	\$ 1,339,496
Statutory	1,867,545	1,468,828	1,243,590	999,679	992,823	898,497
Total payments	<u>\$ 3,138,393</u>	<u>\$ 2,752,621</u>	<u>\$ 2,549,118</u>	<u>\$ 2,291,027</u>	<u>\$ 2,275,314</u>	<u>\$ 2,237,993</u>
Cumulative loss since 2001		\$ (385,772)	\$ (975,047)	\$ (1,822,413)	\$ (2,685,492)	\$ (3,585,892)

This year's budget discussion offered hope of an increase in revenue sharing from the last several years. Revenue sharing was identified as a priority by the Legislature during its initial budget discussions in the winter and several proposals existed which included a blanket increase in revenue sharing of several percent and one which tied the increase in revenue sharing to local governments who demonstrated that they had engaged in service sharing, service consolidation, etc. In the end, the summer budget compromises that occurred in July saw no increases in revenue sharing over the last several years.

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With the appropriation reductions to revenue sharing since 2001 (including approximately \$600 million in fiscal year 2006/2007 over amounts calculated by the statutory formula), a number of townships are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing (remember that the constitutional portion cannot be adjusted). Many townships no longer have any statutory revenue sharing remaining as a result. For those communities, because sales tax collections have increased, their revenue sharing is actually increasing because they are now only receiving constitutional revenue sharing. Essentially, the remaining amount of statutory revenue sharing in the State's budget (approximately \$400 million) is supporting cities, villages, and larger, urban townships.

The statutory formula sunsets in 2007, so these remaining statutory revenue-sharing dollars will receive considerable attention next year. Next year, the State will also need to begin dealing with counties again as it relates to statutory revenue sharing. In fiscal year 2004/2005, the State eliminated statutory revenue sharing received by counties (which was approximately \$182 million in fiscal year 2003/2004) and, in return, allowed the counties to advance the levy of their operating millage to July from December. The additional monies from the earlier levy were utilized to create a reserve fund by the counties to replace lost statutory revenue sharing. The expectation is that when the reserve funds at individual counties become depleted, the counties will re-enter the State's statutory revenue-sharing formula. It is very possible that the return of county statutory revenue sharing could be at the expense of city, village, and township statutory revenue sharing.

If the State were to eliminate statutory revenue sharing, the City would lose approximately \$900,000 of General Fund revenue. Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform") on state-shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

Update on Business Tax Reform (and Its Impact on Local Government)

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget.

December 21, 2006

In addition, there have been discussions at the state level of eliminating personal property taxes. If personal property taxes were eliminated, the City would lose approximately one-third of its property tax revenue. We will keep the City updated on this issue.

Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2006	3.3%	2000	1.9%
2005	2.3%	1999	1.6%
2004	2.3%	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%
2001	3.2%	1995	2.6%

The 2005 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2006. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2006, the City's Headlee maximum property tax rate for its operating levy was 19.026 mills (actual levy was 17.8895) even though the City Charter would allow the City to levy 20 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue, particularly given the significant gap that now exists between taxable value and state equalized value.

Retiree Health Care Benefits

Two new accounting pronouncements were recently issued by the Governmental Accounting Standards Board (GASB). GASB 43 and 45 address the accounting and disclosures related to postemployment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. Starting in fiscal year 2007-2008, the City will be required to measure its retiree health care liability through actuarial valuations that are to be performed biannually. These valuations will compute an "annual required contribution". The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less. The City currently has funds set aside in the Retiree Health Care Trust Fund to help offset this liability. We commend the City for having the foresight to begin prefunding this liability.

Fund Deficits

At June 30, 2006, the City also had a fund deficit in the Brownfield Redevelopment Authority of \$35,737. The City may be required to file a deficit elimination plan with the State of Michigan for this fund.

In addition, the City had a fund deficit in unrestricted net assets in the Recreation Fund of \$414,014 at June 30, 2006. The State may require the City to file a deficit elimination plan for this fund as well.

Recreation Fund

We would like to commend the City for the actions taken during the current year to eliminate the June 30, 2005 total net asset deficit of \$31,597 in the Recreation Fund. At June 30, 2006, the fund has total net assets of \$594,240 but it continues to have an unrestricted net asset deficit. The City should continue to monitor the operating results of this fund and work toward eliminating the unrestricted net asset deficit.

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Accounting and Systems Issues

The following is a list of general accounting and internal control matters that we noted during the course of our audit:

- During the current year budgeting process, the City balanced the budget by including the use or additions to fund balance as a miscellaneous revenue/expense in the respective fund. We suggest that the City use a separate line item on the budget for the use or addition to fund balance. It is our understanding that the City has done this in the 2007 budget.
- The City currently records all retirement system transactions at the end of the year. We suggest that the City record these transactions on a monthly basis.

Transportation Matters

Cities and villages can exercise more flexibility when transferring Major Street Funds to Local Street Funds thanks to Senate Bill 1182, sponsored by Sen. Jud Gilbert (R-Algonac) and signed into law by Governor Granholm. This legislation is an important victory and a strong step toward improving quality of life for local communities and citizens statewide.

Public Act 338 of 2006, which gives cities and villages more control over how they spend local transportation funding, allows:

- Transferring up to 50 percent of Major Street Funds to Local Street Funds with no local match
- Transferring 100 percent of funds if the community has an approved Asset Management Program
- Establishing a pilot program for communities to combine Local Street Funds and Major Street Funds

Cable Franchise Fees

The State of Michigan has joined a number of other states considering statewide cable TV franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable TV providers, and also would apply to new providers who would provide service through phone lines. Providers would have to provide customers with local stations and “public access” stations, as is currently required for cable systems. Providers would have to pay a fee of up to 5 percent of gross revenues that would be given to local governments in lieu of the current local cable franchise fees. The legislature has decided to wait until after the November elections to continue discussions regarding this bill.

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Task Force Report Issued on Local Government Finance

In 2005, the governor commissioned a task force to further study Michigan's Municipal Finance Model. The Commission has completed their work and has released their report in May 2006. Findings of the report include:

- Revenue for local governments is flat or declining due to reductions in state revenue sharing and the interaction of the Headlee Amendment and Proposal A. Mature urban centers have been impacted the hardest.
- While revenues have been restricted, many expenditures are increasing beyond the control of local government. The expenditures include, but are not limited to health care, pension liabilities, and public safety costs.
- The current finance system, based on obsolete revenue foundations, is not resilient or flexible enough to withstand out-migration of taxpayers, whether due to economic downturn or availability of developable land.
- Legacy costs of postemployment benefits to retired workers threaten to overtake the majority of available new revenue for local units.
- Deferring maintenance on critical infrastructure such as roads, sewers, water mains, and buildings to meet ongoing increases in operating expenditures has left many local governments with crumbling infrastructure and growing future cost liabilities.

The full report can be accessed at: www.migfoa.org.

Utility Appeal Settlement

A tentative agreement has recently been reached with DTE Energy to settle all current and outstanding utility appeals with Detroit Edison Company and the Michigan Consolidated Gas Company (MichCon). The settlement is structured such that no money, in the form of tax refunds or additional taxes, need be exchanged between the utilities and local governmental units. The agreement has approximately 10 stipulations that must be adhered to for it to be finalized. The more significant ones are as follows:

- In the next three years, if a city or township uses any multipliers to value MichCon or Detroit Edison personal property, other than the presently approved STC multipliers, the utility can enforce a judgment from 1997 through 1999, involving refund of taxes with interest.
- Each year that the city or township abides by the agreement, a year of the 1997-1999 potential refunds is dropped.

To the Honorable Mayor and
Members of the City Council
City of Trenton

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December 21, 2006

We suggest continuing to treat the liability on the City's books consistent with prior periods given that this agreement is contingent on settlements from other Wayne County communities and these liabilities will not be eliminated immediately, but rather over the next three years.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (December 31, 2006) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

We would like to thank you and your staff again this year for the cooperation and assistance provided during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Yours truly,

Plante & Moran, PLLC



Mark E. Chmielewski



William E. Brickey